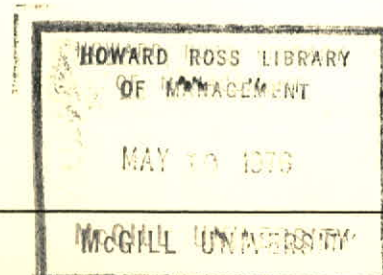


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**First
Quarter Report
Diversified
Investment Funds
January 1 to
March 31, 1976**



The Management Committee



The Diversified Investment Funds

The Diversified Investment Funds were established January 1, 1967 and are operated for the collective investment and reinvestment of non-taxable monies. The Funds are fully managed by International Trust Company and consist of four separate investment portfolios: the Canadian Equity Fund; the International Equity Fund; the Fixed Income Fund; and the Mortgage Fund.

Additions to, or withdrawals from, each Fund, or inter-Fund transactions, are effected on monthly valuation dates at net asset value. Income earned is distributed monthly.

This Report is concerned primarily with investment composition and performance.

FROM LEFT TO RIGHT:
J. W. BENNETT
D. A. WILSON
A. F. STEVENSON
D. P. THOMAS
T. G. MULLIGAN

The Background For Investment

1976 - A Slow Recovery

We continue to believe this economic recovery will be slow in Canada. Our forecast has called for an increase of 4.5% in Gross National Product in real terms. This is probably not too far below the general range of forecasts in Canada which, according to a recent story in the Financial Post, would average somewhere a bit below 5%.

In fact, we think our forecast may turn out to be a little high. It seems to us that this will be a year when results will be reported somewhere below expectations.

If so, this economic recovery will be in direct contrast to the recovery from the last economic recession of 1970. In those years, 1971 and 1972 particularly, governments were following very expansionary fiscal and monetary policies. The unemployment rate was high then, even as it is today, but in those years, a high unemployment rate was taken as a principal reason for stimulating the economy. As we look back, we can see the economy was not only stimulated by government activity, it was almost indecently pumped up to inordinately high levels. As we all know, that produced the big inflation of 1974 and 1975.

A Changed Public Opinion

Today, the public is not loudly demanding that the government do something about unemployment. In fact, the very reverse is true. Probably because it was so unnerved by the big inflation, the public has been demanding government restraint. These demands have been most keenly expressed and felt at the local level of government, where there have been tremendous pressures to cut back on spending. Provincial governments have been next most seriously impacted by restraint, and all provincial governments have been working to cut back on the rate of increase in their spending. Probably the least moved so far by

public opinion on this subject has been the federal government. It is probably furthest removed from the people, and the party in power is in a majority position and does not have to face an election for two or more years.

Not surprisingly, the movement to cut back has affected federal spending least. The public's attitude on this seems most pervasive, however, and it should eventually cause significant reductions in federal government spending.

If so, this could start to bring the government's fiscal policy more in line with monetary policy. No one can doubt where the Bank of Canada stands on this issue, a point which is further developed in our comment on fixed income securities.

A Lower Inflation Rate

One of the major outcomes of all this should be a decline in the rate of inflation. The anti-inflation program has now been with us for six months, but it is still difficult to isolate its specific economic effects.

There is little doubt that it is a monumental national headache, and one only hopes that it is also doing some good. As we have said many times before, however, reducing the rate of inflation cannot come from controls programs for any length of time. It must ultimately come from restrained fiscal and monetary policies.

For 1976 we believe we will see the inflation rate decline to 8% - 9% for both the Consumer Price Index and Gross National Product prices. This would not be low by historical standards, but until money supply growth gets down a lot more, it is about all we can expect.

Corporate Profits

In keeping with our general expectations of a quiet year, we think corporation profits will not be up as

much as generally believed. We have been forecasting about an 8% growth, and believe this is still reasonable.

Certainly the anti-inflation program may reduce this sector just because, for this year anyway, businessmen will hesitate to move prices up as much as they might want, or as much as economic demand might normally cause them to do.

Outside of Canada

Higher growth is generally forecast for the United States, the most dominant economy for us. We have raised our own forecast for the U.S. for 1976 to 5.8% increase in real GNP, year over year. Corporation profits will also be good, and above our earlier forecast. It now appears they will be up around 25%.

In Japan the 1975 results were below our expectations, but a good recovery through 1976 and 1977 is anticipated. In Europe, the situation is mixed with France and Germany having followed somewhat different policies, and the attempt at tying the European currencies together seems to be coming apart. The United Kingdom is doing better than expected, and we expect a marginal real growth this year.

Objectives

As pointed out in our fourth quarter report, our objectives are for a total investment return, i.e. capital gain plus income, of 20% from common stocks in 1976 and of 15% from fixed income securities.

So far, the equity markets are performing well and are already up over half the projected level. The 20% still seems reasonable for the year.

Fixed income markets received a jolt from the recent bank rate increase, but the purpose of this increase, to cool off borrowing and reduce inflation, should bring lower interest rates. Thus, a capital gain of perhaps 5% and a current income of 10% are still good probabilities.

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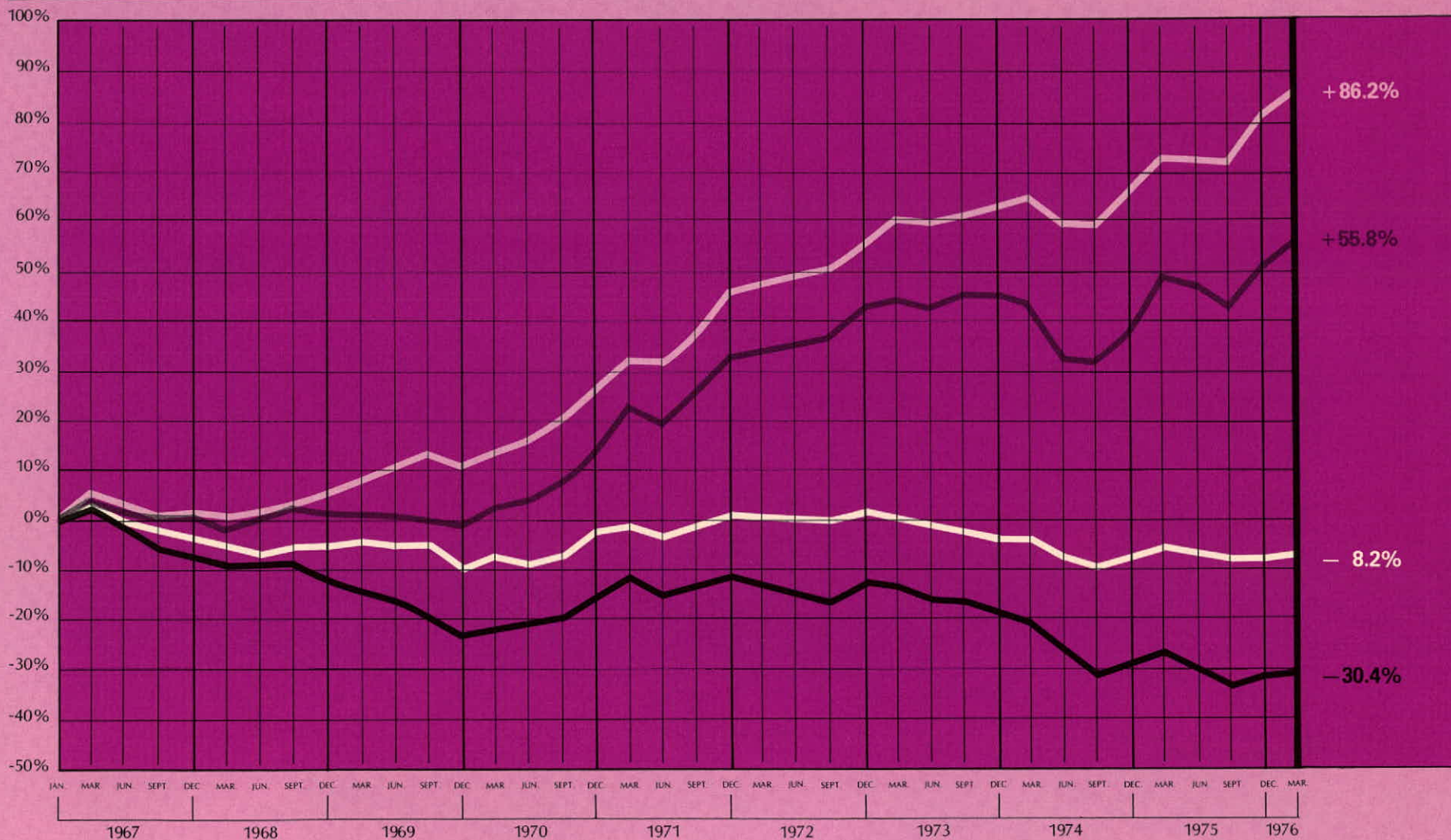


Fixed Income Fund

Comparisons Between

	GRAPH COLOUR	VALUE MAR. 31/76	VALUE DEC. 31/75	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE SINCE INCEPTION
Fixed Income Fund	□	\$ 9.18	\$ 9.10	+ 0.9%	— 8.2%
Fixed Income Fund (Incl. Inc.)	□	\$ 18.62	\$ 18.05	+ 3.2%	+ 86.2%
McLeod Young Weir 40-Bond Index	■	46.23	45.73	+ 1.1%	— 30.4%
McLeod Young Weir 40-Bond Index (Incl. Inc.)	■	255.72	246.36	+ 3.8%	+ 55.8%

Average Yield to Maturity:
Dec. 31, 1975 10.07%
Mar. 31, 1976 10.04%



Fixed Income Fund

Investment Portfolio

Bonds/Convertible Bonds 92% Par Value

Market Value Mar. 31, 1976

\$1,175,000	Govt. Canada 6-1/4% Apr. 1/80	\$ 1,075,947
500,000	Govt. Canada 4-1/2% Sept. 1/83	383,250
250,000	Hydro Elec. Pwr. Comm. of Ont. 9-3/4% Aug. 15/81	252,500
300,000	Prov. of Ontario 9% July 1/98 Prepay July 1/83	291,750
325,000	Prov. of Quebec 8-5/8% Mar. 1/99	274,625
300,000	Prov. of Sask. 7-3/4% Feb. 17/82	279,750
250,000	Prov. of Sask. 8-1/4% Dec. 3/98	208,275
300,000	Abitibi Pulp & Paper 10-1/2% Mar. 1/95 Prepay Mar. 1/85	298,500
400,000	Alum. Co. of Canada 9-3/8% Jan. 2/91	358,000
300,000	Ashland Oil Can. Conv. 5% Jan. 15/93	222,000
600,000	BM-RT 6-1/4% Apr. 1/78 Cum. Wts.	585,150
200,000	BM-RT 9% Apr. 1/80	192,000
500,000	Bank of Montreal 7% Apr. 1/78 — 7-1/2% Apr. 1/92	475,400
400,000	Bank of Nova Scotia 6-3/4% Jul. 1/78 — 7% Jan. 1/92	372,000
375,000	Bank of Nova Scotia 7-1/2% Jan. 1/88 Prepay Jul. 1/79	350,625
250,000	Bell Canada 9-3/4% Jun. 3/79	250,825
300,000	Bell Canada 9-3/8% Aug. 14/90	283,500
400,000	Bell Canada 8-3/8% Aug. 1/93	340,000
500,000	Bell Canada 9-7/8% Apr. 1/99	472,500
200,000	B.C. Telephone 8-3/4% Jan. 15/81	189,500
250,000	B.C. Telephone 9-1/4% Apr. 15/98	218,750
400,000	Calgary Power Ltd. 11-1/8% Sept. 16/79	410,000
500,000	Canadian Imperial Bank of Commerce 7-1/4% Dec. 15/92 Prepay Dec. 15/78	470,300
300,000	CP Limited 11-1/4% Nov. 15/95	309,750
100,000	Consumers Gas 8-3/4% Aug. 15/94	84,000
300,000	Dominion Foundries and Steel 9% Feb. 1/91	270,750
250,000	Dominion Stores 9-1/2% Mar. 1/80	243,750
300,000	First Canadian Investments Limited 9.75% Mar. 15/81	298,500
500,000	General Motors Accept. 8-5/8% Feb. 9/79	492,200
500,000	General Motors Accept. 9% Apr. 1/82	473,150
300,000	Hudson's Bay Company 9-3/4% May 1/79	297,750
200,000	Hudson Bay Mining & Smelting 9% Jun. 15/91	172,000
300,000	John Labatt 9-1/4% Sept. 1/90	269,250
200,000	John Labatt 9% Mar. 15/94	174,000
200,000	Maritime Tel. & Tel. 8-1/4% Jun. 15/77 Ext. Jun. 15/90	196,000
300,000	Molson Industries 8-1/4% Nov. 1/91	246,750

Bonds/Convertible Bonds 92% Par Value

Market Value Mar. 31, 1976

\$100,000	Niagara Realty Corp. 10-3/8% Dec. 18/84	100,000
500,000	Noranda Mines 10-1/4% Mar. 1/77	500,000
200,000	Noranda Mines 9-1/4% Oct. 15/90	182,160
235,000	Olympia & York Dev. Ltd. 10-1/2% Oct. 31/79	242,050
350,000	Royal Bank of Canada 7% Apr. 15/91 Prepay Apr. 15/77	339,780
350,000	Roynat Ltd. 9% Mar. 1/80	339,500
200,000	Seagram Co. Ltd. 7% Dec. 15/78	187,000
600,000	Seagram Co. Ltd. 9-1/2% Jun. 1/80	595,500
250,000	Simpsons-Sears Acc. 10-1/4% Aug. 15/79	251,250
400,000	Steel Co. Canada 9-1/4% Nov. 1/90	370,000
200,000	TDRI Conv. 5-1/2% Feb. 15/93	210,000
225,000	TransCanada Pipe 10% Jun. 20/90	212,625
400,000	TransCanada Pipe 9-3/4% Sept. 20/90	371,000
200,000	Union Carbide 10-3/4% Jun. 15/95	201,000

\$15,884,862

Reserve 8%

Cash & Short-Term Notes

1,439,742

Total Assets at Market Mar. 31, 1976

\$17,324,604

The Fixed Income Fund increased by 0.9% in the first quarter of 1976 compared with a 1.1% increase in the McLeod, Young, Weir 40-Bond Index. Including income the Fund was up 3.2% versus 3.8% increase in the Index.

The most dramatic moves in fixed income markets during the first quarter of 1976 occurred in the short term area. After two months of relative stability when short term rates declined initially and then moved back to their year end close, the unexpected increase in the Bank Rate from 9% to 9½% by the Bank of Canada caused short term rates to move sharply higher. At the close of this period, rates on 30 to 90 day commercial paper were in the 10¼% range. This was an increase of 1% over the year end levels. Such instruments as bank "swaps" were even higher with rates above 11% being available for a few days in the last half of March.

The action by the Bank of Canada followed further sharp increases in money supply caused by a strong demand for bank credit. General loans, which normally turn lower on a seasonal basis in the first part of the quarter remained strong and any weekly declines were minimal. Moving into February and March, loan demand skyrocketed with increases as much as \$500 million being shown on occasion in the weekly figures.

The targeted increase in money supply as stated by the Bank of Canada is between 10% and 15% for 1976. With the upper limits having been reached, the Bank took the serious step of increasing the Bank Rate. This was followed by a similar increase in the prime lending rate of the chartered banks and in rates paid on deposits. The effect of this action on short term rates was sharp. Rates moved up rapidly, and for a time, the Bank of Canada entered the market as a buyer of short-dated instruments in order to attempt to smooth out the rather violent fluctuations.

The current monetary policy is following the path outlined by the Governor of the Bank of Canada, and it is likely that this will continue. We must be aware, however, that our monetary policy is opposite to that

being pursued by most other western countries. Undoubtedly the main reason for this discrepancy lies in the fact that our economy has acted in a much different manner over the last two years than those of our trading partners — especially the U.S. Our economy remained more buoyant, however this was not without its problems. It is well put in the Bank of Canada's 1975 Annual Report, which states:

"The relative strength of output and employment was welcome, of course, but the price tag attached is turning out to be high. That price includes a distinctly less favourable evolution of our domestic costs and prices, and of our balance of international payments."

While short term rates were escalating, the effect on the long term market was negligible. As is usual, the market was better during January. This is quite often due to seasonal factors. However, the main thrust for the market was the continued heavy borrowing that was being done by Canadians in off-shore markets. Actual financings increased sharply both in the U.S. and Euro-dollar markets. Rumours of large issues of Quebec Hydro and Ontario, were finally confirmed, and this helped the market.

The market lost some of its early gain following the Bank Rate increase in March, and interest rates again moved slightly higher. The net effect, however, was that most long term rates were very close to their levels of the year end as we came to the close of the first quarter.

Offshore borrowing had an immediate impact upon the Canadian dollar which moved to a premium of over 1½%, this being an increase of about 3% for this period. Even though the import of capital is required to cover our current account balance of payments deficit, the upward thrust of the dollar is evidence that we are importing more capital than is needed on an immediate basis.

The main reason for the use being made of offshore markets by our borrowers is the saving in interest cost. Near the end of March, Bell Canada raised long term money in the U.S.

market at 8.82%. This represented a saving to them in interest cost of just under 2% compared to what they would have had to pay in the domestic market. This type of interest saving on a long term debt issue has much built in protection against any exposure to the change in the value of the Canadian dollar vis-a-vis the U.S. dollar. This offshore borrowing, especially by governments, can present problems for the Central Bank as the Bank of Canada's Annual Report for 1975 states quite clearly:

"Depending on the level of external interest rates, there may be a substantial diversion of government and other borrowing to foreign markets resulting in upward pressure on the exchange rate as well, even with a very large balance of payments deficit on current account. Such a sequence of events could at some point prejudice a healthy expansion of the Canadian economy. The Bank of Canada can reasonably be expected to see to it that inappropriately high interest rates or an inappropriately high exchange rate do not arise from an unduly low rate of monetary expansion. However, the Bank should not be expected to attempt to deal with these matters by allowing the money supply to expand at an excessive rate since that would only shift the problem back to the domestic inflation of prices and

costs.

Problems of this kind will be much easier to avoid if governments manage to reduce the size of their borrowing requirements as the private sector of the economy recovers."

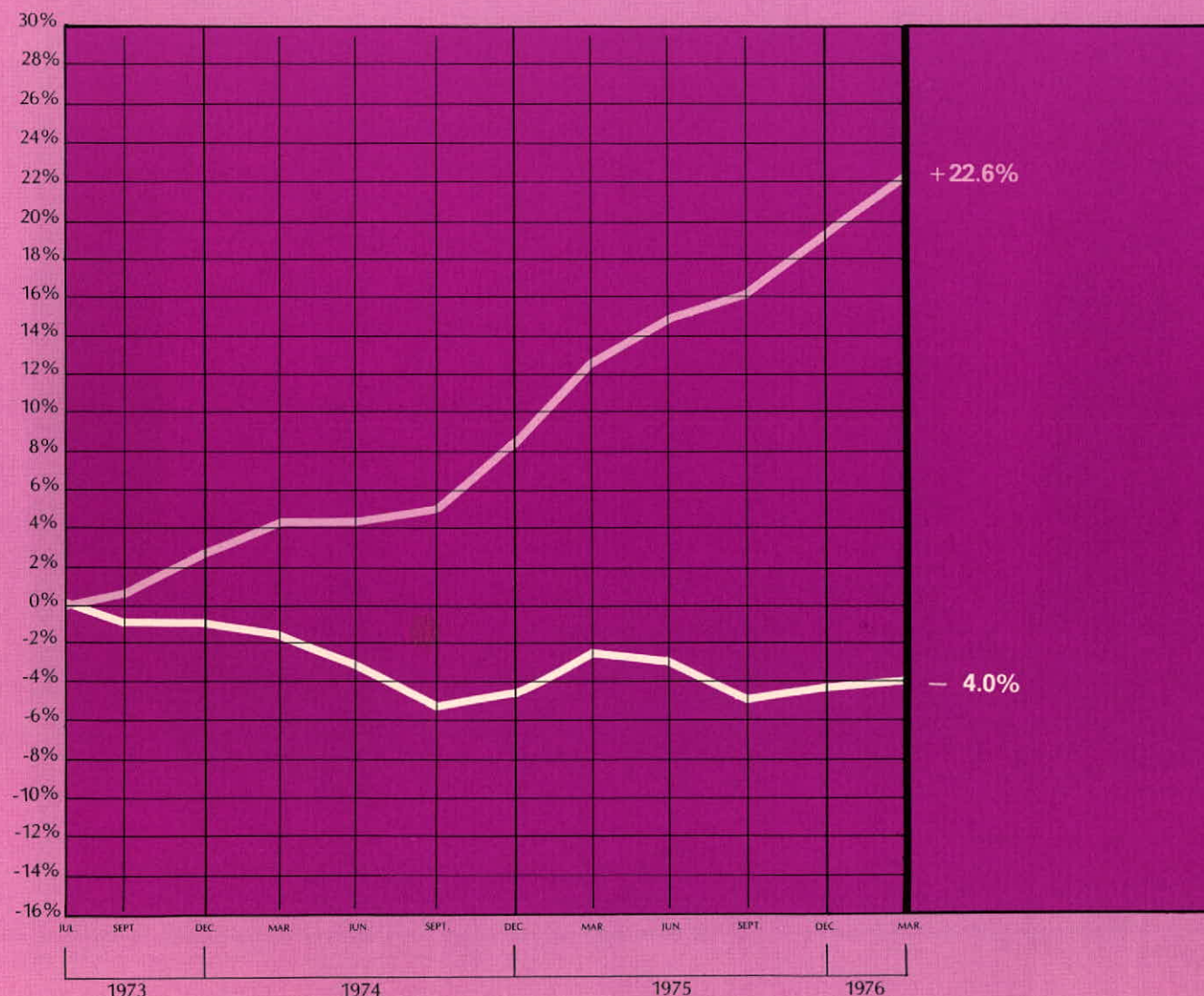
Looking ahead we feel that the current monetary policy will be maintained as long as the demand for credit remains as strong as it is. The Bank of Canada is committed to their policy and it will only be when there is evidence of a decline in money supply that interest rates will be allowed to ease. In fact, there is always the possibility that further increases in the Bank Rate might come about. We are more inclined (perhaps optimistically) to the view that if further restraints are forthcoming they will be of a more direct nature. It could be an increase in secondary reserve requirements, the re-institution of the "Winnipeg Agreement" limiting the rate that banks may pay for competitive deposits, or some form of credit allocation. One would suspect, however, that the Bank of Canada's policy which they have been following since last fall will begin to have the desired effect on money supply growth. We still believe that rates should be somewhat lower by the end of the year than they are at this time. However patience will be the necessary virtue over the next few months.

Portfolio Composition:

	Dec. 31, 1975	Mar. 31, 1976
Reserve	6%	8%
Canadas	11%	8%
Provincials	6%	8%
Corporates	74%	73%
Conv. Debs.	3%	3%
	<u>100%</u>	<u>100%</u>

Comparisons Between

	GRAPH COLOUR	VALUE MAR. 31/76	VALUE DEC. 31/75	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE SINCE INCEPTION
Mortgage Fund	■	\$ 9.60	\$ 9.58	+ 0.2%	— 4.0%
Mortgage Fund (Including Income)	□	\$12.26	\$11.94	+ 2.7%	+ 22.6%



The unit value of the Mortgage Fund was \$9.60 as at March 31, 1976 which compares with a value of \$9.58 as at December 31, 1975 and which represents an increase of 0.2%. Including income the value of the Mortgage Fund units has increased from \$11.94 to \$12.26, a change of 2.7%.

Mortgage rates moved down initially in the first quarter of 1976 and then promptly retraced their steps. This took place even though the volume of new projects requiring financing was at a relatively low level. Rates moved from 12% to 11½% and back up. The main reason for the move was the increase in short term rates which caused the deposit-taking institutions to move their quoted mortgage rates back up even though the demand was light. Money from other sources, however, helped to keep the rate at which commitments were actually made somewhat lower than the quoted level. It would appear that this will continue to be the case for some time.

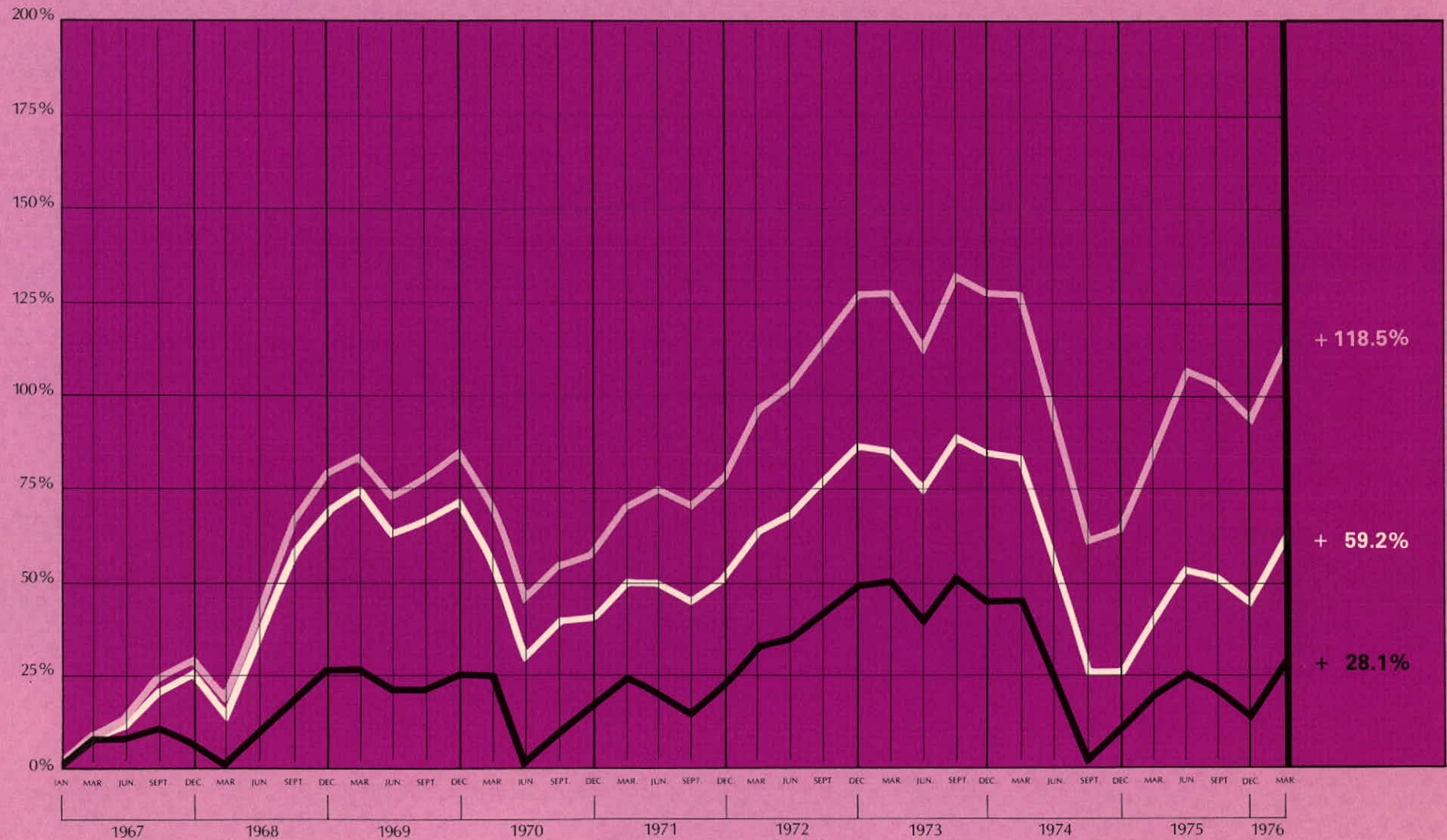
The secondary market was quiet with product in light supply. Rates moved below the 11% mark for some time during this period. However, they had moved back to slightly above this level at the close.

The effect of the increase in the Bank Rate could be serious as far as the housing market is concerned if mortgage rates respond fully to the upward move in interest rates. At quoted levels, we are close to the point where starts have slowed down in the past. We are optimistic, however, that this will not happen as we feel the amount of mortgage money from other than deposit-taking institutions will remain high and tend to steady the rate. This should mean stability for now, and, in fact, if short term rates decline later in the year, mortgage rates would soon follow.

Canadian Equity Fund

Comparisons Between

	GRAPH COLOUR	VALUE MAR. 31/76	VALUE DEC. 31/75	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE SINCE INCEPTION
Canadian Equity Fund	■	\$ 15.92	\$ 14.49	+ 9.9%	+ 59.2%
Canadian Equity Fund (Incl. Inc.)	□	\$ 21.85	\$ 19.72	+ 10.8%	+ 118.5%
T.S.E. Industrial Index	■	189.12	172.31	+ 9.8%	+ 28.1%



Canadian Equity Fund

Par Value Shares	Convertible Securities or Common Stocks	Market Price	Market Value March 31, 1976	Par Value Shares	Convertible Securities or Common Stocks	Market Price	Market Value March 31, 1976
Banks — 15.5%							
23,544	Bank of Nova Scotia	38 3/4	\$ 912,330	29,000	Mattagami Lake Mines	17	493,000
35,240	Canadian Imperial Bank of Commerce	25 1/2	898,620	11,710	Noranda Mines Class A	35 1/8	411,314
30,980	Royal Bank of Canada	27 5/8	855,823	22,300	Placer Development	23 3/4	529,625
46,544	Toronto-Dominion Bank	18 3/8	855,246	20,410	Rio Algom Mines	34 1/2	704,145
			<u>\$ 3,522,019</u>	23,230	Sherritt-Gordon Mines	7	162,610
							<u>\$ 5,238,444</u>
Beverages — 0.7%							
19,800	Bright, T.G. Class A	8 1/4	\$ 163,350	Oil & Gas — 14.5%			
Communications — 3.9%				11,990	Canadian Superior Oil	39 1/2	\$ 473,605
37,920	Standard Broadcasting	8 1/4	\$ 312,840	13,380	Dome Petroleum	34 7/8	466,628
31,880	Toronto Star Class B	17 7/8	569,855	8,829	Gulf Oil Canada	32	282,528
			<u>\$ 882,695</u>	8,090	Home Oil Class A	30 1/2	246,745
Construction & Material — 2.0%				13,570	Hudson Bay Oil & Gas Co.	37 1/4	505,482
21,190	Genstar Ltd.	21 3/8	\$ 452,936	16,360	Husky Oil Limited	21 3/4	355,830
				15,610	Pacific Petroleum	30 1/4	472,203
Forest Products — 11.6%				13,940	Siebens Oil	12 1/2	174,250
54,090	Abitibi Paper	12 1/4	\$ 662,603	11,150	Texaco Canada	28	312,200
23,230	British Columbia Forest Products	23	534,290				<u>\$ 3,289,471</u>
25,560	Domtar Limited	25 1/8	642,195	Pipelines — 4.4%			
24,540	MacMillan Bloedel	20 1/2	503,070	27,880	Interprovincial Pipeline	13	\$ 362,440
18,030	Price Co.	16	288,480	24,000	TransCanada Pipeline	12	288,000
			<u>\$ 2,630,638</u>	15,000	Westcoast Transmission	24 1/4	363,750
Insurance — 6.9%							<u>\$ 1,104,190</u>
10,590	Crown Life Insurance \$1 P.V.	48	\$ 508,320	Real Estate — 0.4%			
9,570	Great West Life \$1 P.V.	55 1/2	531,135	28,350	Commonwealth Holiday Inn	3.10	\$ 87,885
50,190	MICC Investments	10 1/2	526,995	Steel — 4%			
			<u>\$ 1,566,450</u>	12,170	Dominion Foundries & Steel Class A	26	\$ 316,420
Merchandising — 7.2%				21,470	Steel Co. of Canada Class A	28 1/4	606,527
3,000	Canadian Tire Corp. A	48 1/2	\$ 145,500				<u>\$ 922,947</u>
18,120	Dominion Stores	15 5/8	283,125	Trust & Loan — 4.7%			
47,880	Simpsons	6 7/8	329,175	13,940	Canada Permanent Mortgage Corp.	16 3/4	\$ 233,495
15,543	Simpsons Sears Ltd. Class A	9 7/8	153,487	17,750	Huron & Erie Mortgage	23 1/4	412,687
18,120	Steinbergs Class A	17 1/2	317,100	23,230	IAC	18	418,140
20,260	Woodward Stores Class A	19 3/4	400,135				<u>\$ 1,064,322</u>
			<u>\$ 1,628,522</u>	Utilities — 1.1%			
Mines & Metals — 23%				9,290	Calgary Power Class A	27 5/8	\$ 256,636
30,000	Alcan Aluminium	26 1/2	\$ 795,000	Reserve — 0.1%			
27,880	Bethlehem Copper	13	362,440	Cash and Short Term Notes			\$ 19,971
12,000	Cominco	37 3/4	453,000	Total Assets at Market, March 31, 1976			
14,410	Hudson Bay Mining & Smelting	20 3/4	299,008				<u>\$22,740,476</u>
15,240	International Nickel Co. Class A	32 1/4	491,490				
12,270	McIntyre Porcupine Mines	43 3/4	536,812				

Portfolio Balance

	Mar. 31/75	Dec. 31/75	Mar. 31/76
Common Stocks & Equivalents	93.5%	99.0%	99.9%
Reserve	6.5	1.0	0.1
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Portfolio Composition

	Mar. 31/75	Dec. 31/75	Mar. 31/76
Consumer Products & Services	40.4%	40.8%	39.3%
Cyclical	37.5	37.9	40.6
Energy	14.0	15.8	14.5
Regulated	1.6	4.5	5.5
Reserve	6.5	1.0	0.1
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Largest Common Stock Holdings as at March 31, 1976 (By Market)

	Percent of Total Portfolio
Bank of Nova Scotia	4.0%
Canadian Imperial Bank of Commerce	3.9
Royal Bank of Canada	3.8
Toronto-Dominion Bank	3.8
Alcan Aluminium	3.5

The Canadian stock market cooled off late in February, and was more or less even during March after a powerful advance in the first six weeks of the year. In January the Toronto Stock Exchange Index was up almost 9% and in February, despite weakness late in the month, was up a little over 3%.

For the first quarter as a whole the Index was up 9.8%, while the Canadian Equity Fund was up 9.9%.

Features

One important feature was the dramatic recovery of the paper and forest products group, which was up 27.4%. This group had lagged behind the market in 1975, but has been more than making up for it so far in 1976.

The metals have also been exceptionally strong, continuing the trend started in 1975. These basic natural resource industries, which so concerned investors in 1974, have now become market favourites. We have thought for some time there was exceptional value in these groups and have held very high positions in them.

On the other side, the banks have been very weak in 1976. As a group, they were actually down 4.0% in the first three months of 1976. This largely reflected investors' fears of the anti-inflation restraints being put on banks. During the quarter, the Anti-Inflation Review Board issued regulations specifically for banks, the effect of which would be to control profit growth.

In our opinion the anti-inflation program will eventually become an unhappy memory, and these regulations should not affect the long term growth prospects of the banks. They are selling today at a very low relation to assets and earnings, something that will not indefinitely persist.

Despite the first quarter recovery, Canadian stocks continue to be low in relation to their earnings.

Price Earnings Ratio T.S.E. Industrial Index

31 Dec. 1973	31 Dec. 1974	31 Dec. 1975	31 March 1976
12.6	6.6	8.2	9.1

Dividend Yields

31 Dec. 1973	31 Dec. 1974	31 Dec. 1975	31 March 1976
3.6%	5.9%	5.3%	4.8%

It must be remembered that even the level shown above for 31 December 1973 of 12.6 is historically low. A long term medium range is probably above 15. Thus, the market has a way to go if confidence improves.

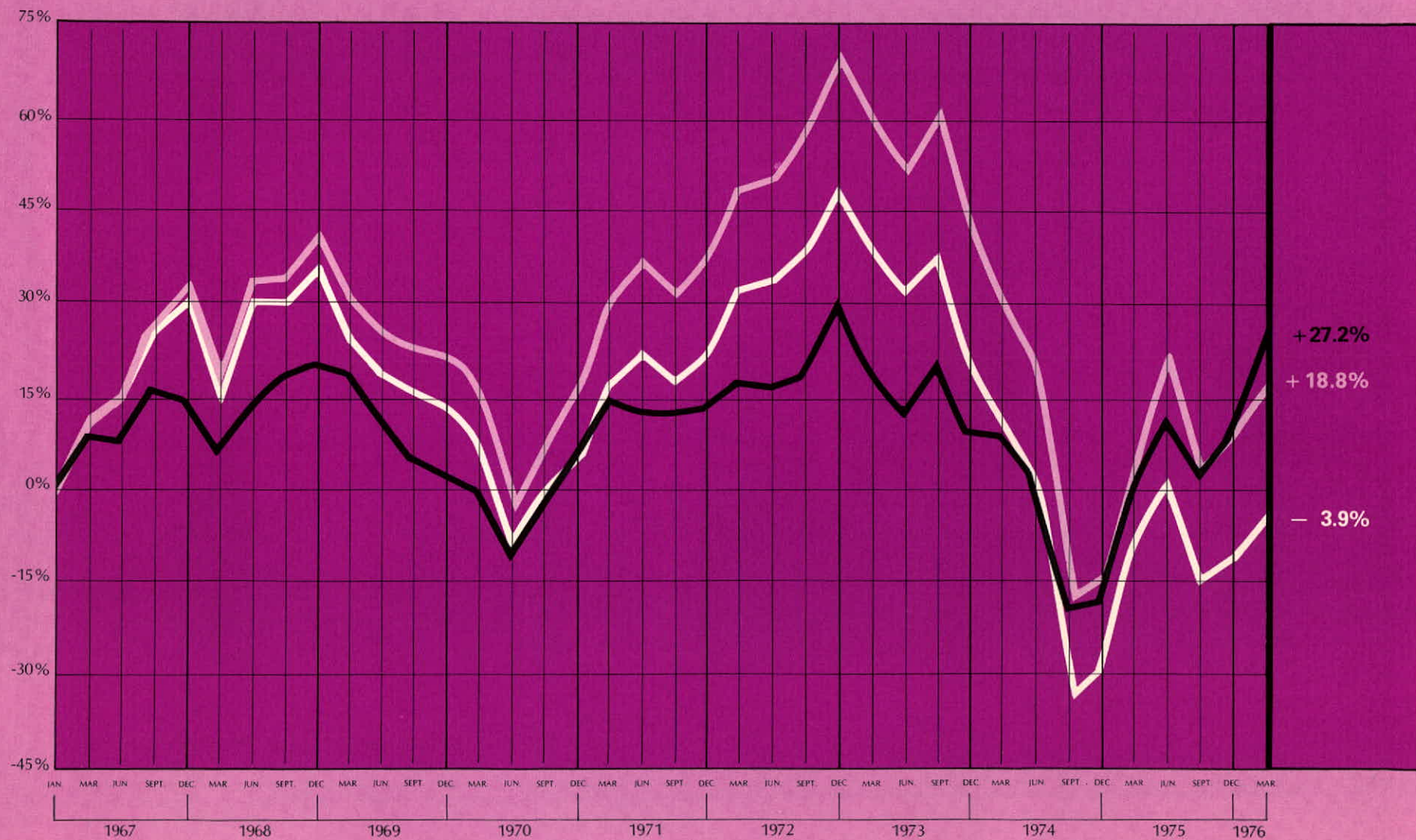
The yield, of course, will be restrained by the anti-inflation freeze on dividend rates.

The Portfolio

The cyclical groups (metals, forest products, steels, construction) and the consumer group (banks, merchandising, insurance, communications) are still about equally divided with some 40% in each. Oil and gas stocks remain an important group with about 15%, and cash, at 0.1% remains low reflecting our strategy of being fully invested.

International Equity Fund

Comparisons Between	GRAPH COLOUR	VALUE MAR. 31/76	VALUE DEC. 31/75	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE SINCE INCEPTION
International Equity Fund	■	\$ 9.61	\$ 8.83	+ 8.8%	— 3.9%
International Equity Fund (Incl. Income)	□	\$ 11.88	\$ 10.85	+ 9.5%	+ 18.8%
Dow Jones Industrial Average	■	999.45	852.41	+ 17.2%	+ 27.2%



International Equity Fund

Investment Portfolio

Par Value Shares	Convertible Securities or Common Stocks	(U.S.) Market Price	(Cdn.) Market Value March 31, 1976	Par Value Shares	Convertible Securities or Common Stocks	(U.S.) Market Price	(Cdn.) Market Value March 31, 1976
5,000	Autos — 2.2% General Motors Corp.	70 1/8	\$ 345,085	2,000	Insurance — 1.9% General Reinsurance	152	\$ 299,197
9,000	Banks — 3.3% J. P. Morgan & Co.	59 7/8	\$ 530,361	10,000	Miscellaneous — 10.2% Black & Decker	24	\$ 236,208
				5,000	Caterpillar Tractor	82 1/2	405,982
				30,000	Huyck	14 7/8	439,199
				14,000	Masco	26 3/4	368,583
2,000	Chemicals — 1.3% Dow Chemical	107 5/8	\$ 211,849	3,000	Minnesota Mining & Manufacturing	64 1/8	189,335
							\$ 1,639,308
8,000	Drugs — 7.6% Lilly, Eli & Co.	54 5/8	\$ 430,095	4,000	Oils — 1.9% Schlumberger	78 1/4	\$ 308,055
7,000	Merck Inc.	74 1/2	\$ 513,260				
5,000	Schering-Plough	57	280,497		Personal Care — 3.7% Avon Products	42 5/8	\$ 419,515
			\$ 1,223,852	10,000	Cheesbrough Ponds	59 7/8	176,787
				3,000			\$ 596,302
18,000	Electronics — 15.7% AMP	31 1/4	\$ 553,612		Photography — 5.1% Eastman Kodak	118 3/4	\$ 818,116
6,000	Hewlett-Packard	115 1/2	682,051				
22,000	Perkin-Elmer	25 5/8	554,843		Retail Trade — 9.2% S. S. Kresge Co.	36 1/4	\$ 891,931
6,000	Texas Instruments	125	738,150	10,000	J. C. Penney	59 3/8	584,369
			\$ 2,528,656				\$ 1,476,300
					Reserve — 4.7% Cash & Short Term Notes		\$ 757,416
3,700	Food & Beverages — 5.9% Coca-Cola	87 7/8	\$ 320,000				
10,000	McDonald's	64	629,888		Total Assets at Market, March 31, 1976		<u>\$16,072,195</u>
			\$ 949,888				
12,000	Hospital Supply — 5.8% Baxter Laboratories	40 7/8	\$ 482,750				
5,000	Johnson & Johnson	89 3/4	441,660				
			\$ 924,410				
8,000	Information Processing — 21.5% Automatic Data Processing	63	\$ 496,037				
5,000	Digital Equipment	175 1/2	863,636				
6,000	Honeywell	48 1/2	286,402				
4,500	International Business Machines	262	1,160,372				
12,000	Xerox Corp.	55 5/8	656,953				
			\$ 3,463,400				

Portfolio Balance

	Mar. 31/75	Dec. 31/75	Mar. 31/76
Common Stock & Equivalents	93.1%	85.4%	95.3%
Reserve	6.9	14.6	4.7
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Portfolio Composition

	Mar. 31/75	Dec. 31/75	Mar. 31/76
Consumers Products Division	44.4%	35.7%	41.1%
Cyclical	10.6	8.6	8.8
Energy	—	1.5	1.9
Technology	38.1	39.6	43.5
Reserve	6.9	14.6	4.7
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Largest Common Stock Holdings as at March 31, 1976 (By Market)

	Percent of Total Portfolio
IBM	7.2%
S. S. Kresge Co.	5.6
Digital Equipment	5.4
Eastman Kodak	5.1
Texas Instruments	4.6

Stock prices in the United States were stronger than they were in Canada in the first quarter. This continues the 1975 trend, although we think it may not persist through the year.

Performance of Major Indexes

	31 March 1976	First Quarter % Change	Twelve Months % Change
Dow Jones Industrial	999.45	17.2	30.1
Standard & Poor 425	115.66	14.6	23.6
Standard & Poor 500	102.77	13.9	23.3
N.Y.S.E. Composite	54.80	15.0	24.0

The Dow Jones Industrial average also continued a trend set in 1975 by outperforming the other indexes. Investors are still attracted to the basic industries where the effects of the economic recovery should be most strongly felt. There was strong demand for steels, chemicals, papers and oils. Strength was also evident in groups like airlines, and indeed, the Dow Jones Transportation Average was higher than the Industrial or Composite Averages, rising by 20% in the first quarter.

Price Earnings Ratios

	Index 31 Dec. 1975	Latest 12 Months Earnings	— Price Earnings Ratio —		
			31 Dec. 1974	31 Dec. 1975	31 March 1976
Standard & Poor 425	100.87	8.25	6.6	11.3	14.3
Dow Jones Industrial	852.41	75.44	7.7	12.2	13.2

In the U.S. the outlook for corporate profit growth is very good. Our forecast calls for an increase of 25%. The strength of the market is based on rising earnings, but we also expect the price-earning ratio to improve. The degree to which earnings might rise in the U.S. in 1976 is undoubtedly one of the reasons for the greater strength in that market so far this year.

Much has been written about the Dow Jones Average being around 1000. Despite all modern attempts to be highly sophisticated, and to ridicule some of the folklore in the market, this event is having a definite effect on investors' attitudes. Some are reluctant to buy until the Dow decisively penetrates the 1000 mark, others are anxious to sell now that it is back at this old level which proved a peak before, while still others just wait and see.

The fact that few individual stocks are anywhere near the level at which they sold the last time the Dow crossed 1000 seems immaterial. The Dow Jones Average mesmerizes investors today just as it did their parents and grandparents and probably just as it will their children and grandchildren.

The Portfolio

The fund remains concentrated in technology (44%) and consumer product (41%).

IBM is still the largest holding, followed by Kresge, Digital Equipment, Eastman Kodak and Texas Instruments.

During the quarter we sold North Carolina National Bank, and we added to Masco, Dow Chemical, Schlumberger, Honeywell and Automatic Data Processing.

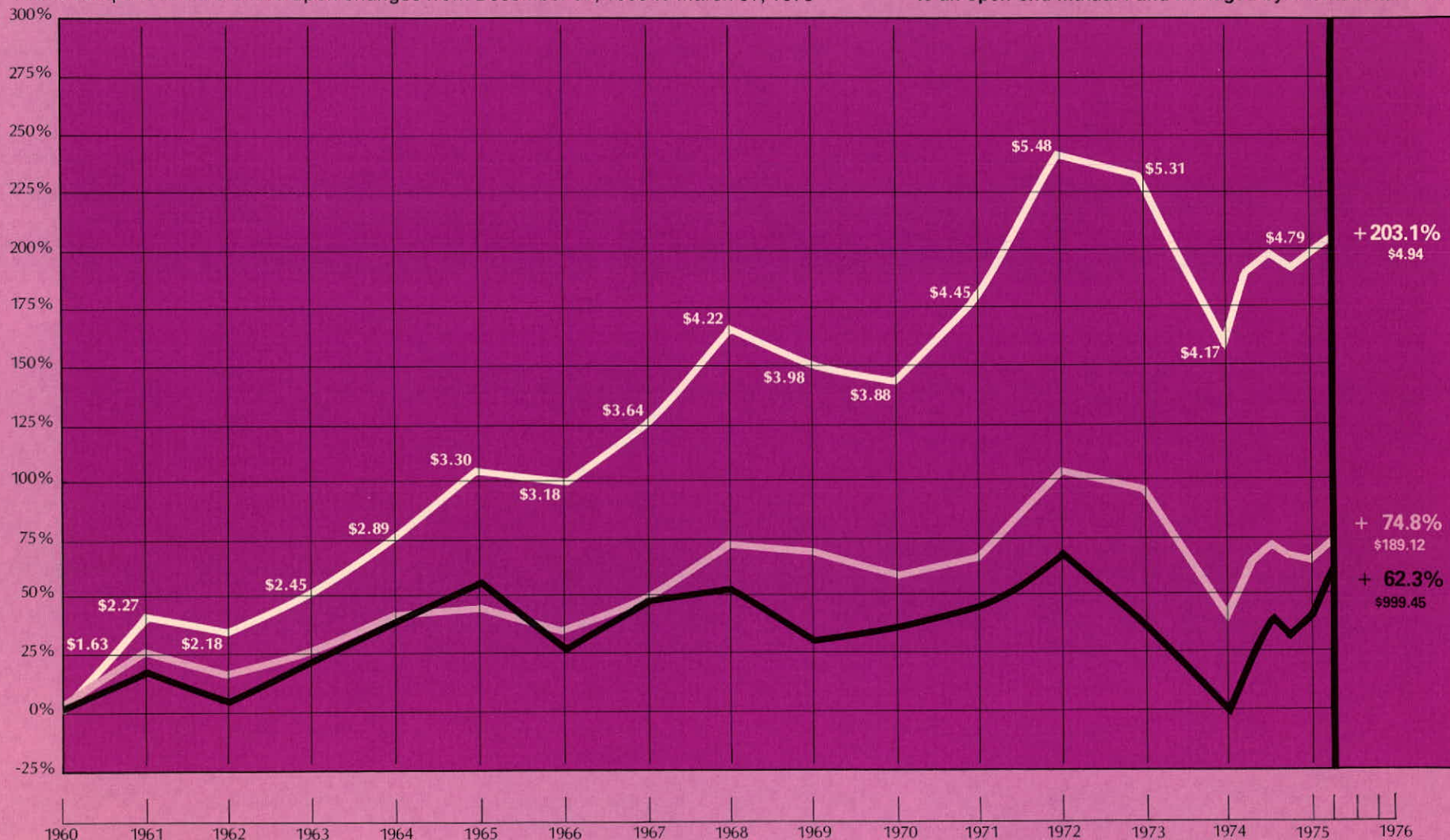
ITCO Investment Fund Limited

(formerly Andraee Equity Investment Fund Limited)

Comparisons Between	GRAPH COLOUR	VALUE MAR. 31/76	VALUE DEC. 31/75	VALUE DEC. 31/60	PERCENT CHANGE OVER QUARTER	PERCENT CHANGE SINCE DEC. 31/60
ITCO Investment Fund (Excl. Div.)	■	\$ 4.94	\$ 4.79	\$ 1.63	+ 3.3%	+ 203.1%
TSE Industrial Index	□	189.12	172.31	108.20	+ 9.8%	+ 74.8%
Dow Jones Industrial Average	■	999.45	852.41	615.89	+ 17.25%	+ 62.3%

These comparisons are based upon changes from December 31, 1960 to March 31, 1976

The ITCO Investment Fund
is an open-end mutual Fund managed by International Trust.



Unit Values of Diversified Investment Funds Since Inception

	Fixed Income Fund			Mortgage Fund			Canadian Equity Fund			International Equity Fund		
	UNIT VALUE	INCOME QTR/MO.	VALUE INCL. INC.	UNIT VALUE	INCOME QTR/MO.	VALUE INCL. INC.	UNIT VALUE	INCOME QTR/MO.	VALUE INCL. INC.	UNIT VALUE	INCOME QTR/MO.	VALUE INCL. INC.
1966 Dec. 31	\$10.00		\$10.00				\$10.00		\$10.00	\$10.00		\$10.00
1967 Dec. 31	9.52	\$.15734	10.14				12.65	\$.09396	13.02	13.28	\$.05561	13.54
1968 Dec. 31	9.45	.14652	10.73				17.06	.11004	18.00	13.67	.05368	14.24
1969 Dec. 31	9.05	.20602	11.09				16.99	.11949	18.57	11.40	.12480	12.27
1970 Mar. 31	9.26	.17651	11.57				15.54	.15469	17.15	10.72	.12092	11.66
June 30	9.18	.18571	11.70				12.93	.13116	14.40	8.76	.11073	9.64
Sept. 30	9.30	.19003	12.10				13.82	.17910	15.60	9.83	.06254	10.89
Dec. 31	9.64	.19492	12.80				14.03	.13295	15.98	10.62	.04831	11.82
1971 Mar. 31	9.82	.19593	13.33				15.03	.12995	17.28	11.84	.05244	13.24
June 30	9.64	.18892	13.31				15.04	.12842	17.44	12.30	.04849	13.81
Sept. 30	9.90	.20070	13.96				14.59	.11095	17.05	11.79	.05142	13.30
Dec. 31	10.06	.19743	14.46				15.19	.10311	17.87	12.32	.05237	13.96
1972 Mar. 31	10.00	.18497	14.64				16.60	.11675	19.67	13.30	.04940	15.14
June 30	9.93	.18826	14.81				16.95	.11314	20.21	13.46	.04650	15.37
Sept. 30	9.97	.18887	15.16				17.78	.09474	21.32	13.92	.05572	15.96
Dec. 31	10.16	.18626	15.73				18.95	.12469	22.88	14.87	.04958	17.11
1973 Mar. 31	10.13	.18029	15.96				18.87	.09384	22.90	13.94	.06410	16.11
Jun. 30	9.88	.17908	15.85				17.50	.12377	21.38	13.22	.05627	15.36
Sept. 30	9.77	.19265	15.99	9.92	.13906	10.07	19.24	.10939	23.64	13.98	.06974	16.32
Dec. 31	9.71	.19317	16.21	9.92	.20852	10.28	18.32	.16836	22.73	12.11	.05223	14.19
1974 Mar. 31	9.61	.19337	16.36	9.86	.22438	10.45	18.24	.12509	22.77	11.14	.04991	13.11
June 30	9.07	.19501	15.77	9.69	.21141	10.49	15.18	.19720	19.19	10.22	.05406	12.10
Sept. 30	8.91	.20719	15.86	9.50	.23806	10.54	12.53	.16598	16.05	6.68	.05505	7.96
Dec. 31	9.13	.21338	16.64	9.57	.23663	10.89	12.54	.20532	16.32	7.10	.04961	8.51
1975 Jan. 31	9.44	.06286	17.32	9.71	.07171	11.12	14.44	.01504	18.81	8.14	.01170	9.78
Feb. 28	9.51	.06351	17.56	9.79	.06611	11.29	14.69	.08215	19.24	8.73	.01727	10.51
Mar. 31	9.46	.06569	17.60	9.79	.06996	11.37	14.46	.06294	19.05	9.07	.01831	10.94
April 30	9.27	.06569	17.37	9.80	.07049	11.46	14.85	.10987	19.59	9.72	.00898	11.74
May 31	9.26	.06757	17.47	9.74	.08304	11.49	15.16	.08395	20.11	10.04	.01584	12.15
June 30	9.26	.06641	17.59	9.72	.07008	11.55	15.73	.02969	20.90	10.33	.04644	12.57
July 31	9.13	.06721	17.47	9.63	.07634	11.54	15.79	.04441	21.04	9.26	.01429	11.26
Aug. 31	9.11	.07240	17.58	9.55	.07664	11.53	15.81	.08304	21.19	8.92	.02007	10.87
Sept. 30	9.03	.06199	17.54	9.53	.07605	11.60	15.04	.06418	20.23	8.42	.01634	10.29
Oct. 31	9.08	.06797	17.77	9.60	.07616	11.78	14.29	.02673	19.26	8.92	.01369	10.92
Nov. 30	9.07	.06568	17.87	9.57	.07630	11.84	14.92	.07105	20.21	9.06	.02095	11.11
Dec. 31	9.10	.06002	18.05	9.58	.07685	11.94	14.49	.06361	19.72	8.83	.02063	10.85
1976 Jan. 31	9.25	.07209	18.50	9.67	.08065	12.16	15.83	.02908	21.56	9.54	.02016	11.76
Feb. 29	9.25	.06262	18.63	9.61	.07580	12.19	16.40	.09328	22.47	9.34	.01904	11.53
Mar. 31	9.18	.06855	18.62	9.60	.07730	12.26	15.92	.03417	21.85	9.61	.01351	11.88

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INTERNATIONAL TRUST COMPANY

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